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Economic Developmnet, Technological Change and Growth

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Development and poverty in Egypt

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1. Abstract

The purpose of this paper is to track the development process in Egypt since the early sixties. The paper starts with the broad definition of the development and its goals, then it evolves to the stages of development in Egypt since the first five years plan (1960-1965) passing by the open door policy in the 70s , and the hard times of the economy at the 80s and economic reform program at the early 90s until 2004.

Furthermore, the paper gives a deep concern to the issue of poverty in Egypt with an emphasis on the impact of the development at different stages on the poor in Egypt. A brief handling of the policies adopted to reduce the burden on the low income strata of the society and why these policies were not so effective. The paper is looking for changing the narrow definition of the poverty which is commonly referred to only as income poverty.

Islamic vision of combating poverty is discussed with the emphasis on the fact that Islamic Religion considers work as the basic and sole way to combat poverty. Other Islamic policies are basically targeting the widows, orphans, elderly, and handicapped people. A reference to some examples from the Qur'an and Hadith were given to show to what extent Islam is giving poverty problem the due concern.

The role of the informal sector as an avenue that can participate in eradicating poverty and the efforts needed from the government to make it positively involved in the development process and accordingly get rid of the poverty.

A policy recommendation is introduced in order to formulate a set of ideas that the student sees them necessary to reach a comprehensive solution to the poverty problem in Egypt.

2. Introduction

Since the dawn of history poverty has been looked for as a complex phenomenon and a social disease that need the due attention. With the emergence of the development concept at the 50s of the last century countries all over the world, regardless of culture and social values , the development stage , level of technology and finally the resources endowment, started to knock all possible doors and adopt the varied policies to find a satisfactory outcome for this human dilemma.

The importance of the poverty matter leads the United Nations (UN) to intervene in order to mobilize the world efforts that took the form a worldwide consensus over the goals of the Third Millennium. In 2000, the signatory members of the United Nations agreed on the 8- goals agenda of the Third Millennium Development Goals (MDGs). The eight goals were topped by the eradication of extreme poverty and hunger as a number one goal.

The relationship between the development and poverty is an inextricable one. Any progress achieved as a result of the development should be reflected in the form of declining the number of poor in the country concerned. Sometimes poor are not getting benefit from the development due to the inequality of distribution.

This paper tracks the development process and poverty in Egypt. It starts, **first** with giving definition of development, its goals and its characteristics. **Second**, it discusses the development stages in Egypt with the focus on the main feature of each stage. **Third**, it discusses poverty definition, characteristics of the poor and the trends of poverty in Egypt. **Fourth**, the policies adopted by the Egyptian government to reduce the burden on the vulnerable and low income classes. **Fifth**, the discussion of Islamic

vision of combating poverty is given with the emphasis on the work as the core reason of combating poverty. **Sixth**, informal economy as a factor for tackling poverty and at the same time an engine for development is discussed. **Seventh**, set of strategies recommended dealing with poverty in Egypt. **Eighth**, Conclusion.

3. The concept of Development

The first and foremost aim of the development is to improve the quality of life. Meeting the basic needs is no longer the sole necessary condition of life. Life needs a large number of requirements to cope with the contemporary needs of the human being. These requirements are high level of income, better education, better health care, better nutrition, cleaner environment, participating decision making, enjoying a higher cultural life, self respect.

Here we offer two definitions of development:

The first definition¹:

“Development must be conceived of as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as acceleration of economic growth, the reduction of inequality, and the eradication of poverty.

Development, in its essence, must represent the whole gamut of change by which an entire social system, tuned to the diverse basic needs and desires of individuals and social groups within the system, moves a way from the condition of life widely perceived as unsatisfactory toward a situation or condition of life regarded as materially and spiritually better.”

The second definition²:

“Development is the successful pursuit of positive changes of the conditions of rapid economic, social, political, and psychological change and challenge which in the twentieth century have come to confront most societies of the non-industrialized world, and which form the contexts in which the governments of such societies must define and act upon specific national objectives”

3.2 The characteristics of the development³:

The development phenomenon has the following characteristics:

1. The aspects of development are various, related and multidimensional
2. The development furnishes the morale ability of choice.
3. The national level of development and the international one are inexorable.
4. Development is strongly affected by the prevailing domestic values and culture.
5. Development, in most of the cases is accompanied by inequality.
6. Development is a societal rather than individual activity.

3.3 The objectives of development ⁴

Based upon the definitions above we note that the development is a combination of social, economic and institutions process that seeks to meet the whole range human beings needs. The following can be considered the general objectives of development:

1. Raising the capability and widening the scope of life-sustaining options.
2. Increasing the level of living.
3. Expanding the economic and social option available to citizens.

The above section will assist us to have a broad understanding of development and make it clear from the beginning that development targets the human being first and foremost.

Development and inequality:-

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The issue of inequality occupied a great concern in the literature of development. In this respect, the views of the economists varied greatly, some consider that development process should be accompanied by the equitable distribution of the benefits of development while others prefer that, "grow now and trickle later". Each team of those economists has his own convictions.

For those supporting grow now, trickle later, Jeffrey sach, an advocate of capitalism and market deregulation sees "“In the development process, inequality is a normal phase”. When development occurs inequality takes place. The starting point of development is to abolish the extreme poverty, therefore, when the development occurs there will be development of human capital and skills and accordingly some sectors of the economy will be better than other sectors. At any rate the inequality will decline afterwards. However, Sach did ignore the public resentment, in this respect he cited the words of the economist Albert Hirschman, he compared the development process with the traffic jam in a tunnel, once the first complete lane moves forward it gives a chance to the stalled lanes to follow steps, but if one part of the lane only moves, then the installed will be frustrated and resort to radical behavior and tempt to jump the median strip”.

In order to relax the public resentment, regulating the public expenditure through empowering the poor to monitor the service providers, furthermore, allowing the poor to participate expressing their voice in the policy making process” added Ritva Reinikka, an economist with World Bank, commenting on what Sach said⁵.

In the same line with Sach’s view, the growth –oriented theory of economic development supports the idea that the inequality of income is crucial as it secures incentives to investment. The theory explains its view by saying if the investors are

serious to gain rewards for their efforts and risk taking then the income will be maximized. This income will be trickle down later on either in the form of wages went to the less privileged classes or the state itself will redistribute the income. Alas, these two approaches proved not to be encouraging in developing countries.

In contrary to the above view points about development and inequality, comes the growth-with equity response. Growth with-equity criticizes the supporters of “grow now, trickle later” not only because the exclusion of the poor but also because practically it is impossible to redistribute the income later for the following three reasons⁶:

1. Country’s growth normally is accompanied by structural change. The social class that receives the income gain political power that makes them capable of opposing ant attempt to redistribute. What makes the redistribution complex is that, income became embedded in stocks and a Mercedes can not be turned to a bicycle later on.
2. The development is featured by movement from rural to urban areas looking for jobs. For every job created there are three seekers with one get the job and two left unemployed (Michael P.Todaro).
3. The approach of grow now and trickle later ignored certain aspects such as agriculture, furthermore, the social and political transformation and participation were given the due concern.

After discussing the varied view points, I see that the best pace of development is that directly reflected in the tangible progress in the life of the poor. My reasoning is that, the development must start from the bottom, in other words, providing the poor with education, health, portable water and other social services are the prime function of nay government all over the world. It is not acceptable to tell the poor, please wait until the business magnates achieve huge wealth and you will receive the residuals. The government is issuing the laws that make the business environment smooth for doing

business from the part of the entrepreneurs but the core task of the government is make life affordable by the poor.

The ends of the poor, the government and the entrepreneurs can be achieved spontaneously if the right policies were adopted and the poor were given the chance to participate in making policies that are supposed to achieve their interests at the end of the day. To sum up, I strongly believe that the poor should get benefit of the development process from its very beginning.

Stages of Economic Development in Egypt ⁷ : -

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The economic development in Egypt passed through different stages with the state as a key player in the economic activities but the role of state was declining over time. In the 1960, the populist economic policy that aimed to secure the welfare for the citizen in the form of free education, employment, minimum wages, and social insurance for the elders and ill people. During the sixties, the key political aim was to fulfill development independently relying on the mobilization of national resources.

During the 1970s and with issuance of the law no 43 of 1974 in respect of Investment of Arab and Foreign Funds and the Free Zones to stimulate the role of foreign investments, the role of the state declined in favor of the private sector and the government spending on commodities and services declined and was heavily directed to the investment in infrastructure. The expansion of government expenditure led to increase debts especially with the decline of oil prices at the second half of the eighties.

The early stage of the 1990s witnessed a liberalization process of the Egyptian economy, in spite of this the state still assign a large portion of the budget for subsidizing basic goods, health and education.

The Egyptian Economy during the 1960s ⁸:

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At the early of the 1960s, Egypt adopted the planning as a tool to manage the economy as stipulated by the temporarily constitution of 1954 according to Article 4 of the second chapter which stipulated that “The national economy is organized according to designed plans, which take into account the social justice and aims to promote production and raise the standard of living”.

Moving from this conception, the Egyptian government put the first five year plan (1960-1965) that designed to cover not only the economic aspects but also the social ones as well. The plan confirmed the importance of joint participation of both the private sector and government. The goals of the plan were as follows:

1. Achieving a balanced growth in order to guarantee the harmonization of growth of all activities at the same time.
2. Designing the economic policy in a manner that meets the present needs and allowing a sustained growth in the future, with a due concern given to the follow up.
3. Attaining the scientific knowledge and technical expertise in order to raise the production efficiency for both capital and labor in order to achieve fast economic progress.
4. Fairness in the distribution in order to narrow the gap between the rich and the poor.
5. Securing the fruitful work for every citizen able to work in a way that leads increasing the investment in both agriculture and industry. Furthermore, providing the training to raise the efficiency of the workers.
6. The participation of the private sector and public sector in implementing the plan.

In spite of the fact that, the plan was prepared in high technical and balanced manner, unfortunately, it did take its way to completion due to the nationalization Laws at 1961/1962, the issue enforced the private sector to withdraw from form the participating in financing the plan.

The main feature of the 1960s was that, the import-substitution industrialization policy and populist economic policy both policies were accompanied by rapid economic growth the early 1960s. But alas, this situation changed totally during the second half of the same decade due to the non-justified involvement in the Yemen war and after it Arab -Israeli war of 1967⁹.

The Egyptian economy during the 70s and early 80s¹⁰:

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The economic policy changed from the full control of the state to a mixed system with a great role of the private sector in investments and massive foreign currency flow from, Suez Canal, petroleum, worker remittances and oil in addition to massive increase in grants and loans.

The Egyptian economy performed very well during the decade from the mid 70s to the mid 80s, as this period is dubbed as the boom decade. In 1974 Egypt, under President Sadat adopted the Open Door Policy shifting from the communist policy. During the decade the Egyptian economy achieved a sustained GDP growth rate with 9% fuelled by the increases in foreign exchange currency of the petroleum, Suez Canal , expatriate remittances , tourism , in addition to a generous of foreign aids flows. With open door policy, large incentives were given to the Arab and foreign capitals large investments were made at the non-tradable sector including infrastructure, housing, electricity, transport and other services.

The Egyptian economy through the period of mid 70s to mid 80s witnessed tremendous transformations in varied social and economic aspects. On the economic front, the per capita income doubled from \$334 in 1974 to \$ 700 in 1984 , Furthermore, receipts of the current account rose from \$ 3 billion in mid 70s to \$ 13 billion at mid 80s. On the social front, the nutritional level per capita rose by 21%, life expectancy raised from 55 to 61 years, child mortality dropped from 116 to 85 per thousand, the enrolment in the primary education rose from 70% to 88% , and in secondary education from 53% to 66%.

Electrification of rural house rose from 19% to 79% , potable water was available to 56% of the rural communities, the number of subsidized housing units reach more than 40%. Furthermore, one of the great achievements of the economy through the period from 1976 to 1986 was the grew of employment by 1.5% annually compared with the annual increase of labor force by 2%.

With the above mentioned positive accomplishments of the economy through the referred period, the Open -Door policy was not without negative consequences. in this respect we can say that **first**, focusing investment activities in the non-tradable aspects at the expense of the non-oil tradable (manufacturing and agriculture) had a negative impact on both the growth and export performance of agriculture and manufacturing, **second**, Open-Door Policy , lead to the emergence of new capitalist class accompanied by deviation in the income distribution widening the gap between the capitalist and fixed income earner segments , **third**, rigid control price that is still prevail the economy lead to distortion in price structure in the market , as the public sector has its own policy that differs greatly from that of the private sector, **Fourth**, the long-standing guarantee of full employment lead to the problem of mismatching at the labor market, **Fifth**, the

continuing tight control over the public sector and tightening its prices policies lead to its poor performance both economically and financially.

The Egyptian Economy during the 1986-1989¹¹:

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We discussed above that the Egyptian economy situation through the period from mid 1970s to the mid 1980s and we saw that the growth rate was mainly fuelled by the foreign exchange currency receipts from petroleum, tourism, expatriate remittances and Suez Canal. Since these sources of foreign currency are fluctuated, therefore, with sharp decline in oil prices through 1986-1989 this lead to sharp drop of the growth rate to 3%. Since the Egyptian economy under the Open-Door Policy was a halfhearted liberalization and a halfhearted state-controlled economy (Amin, Galal), the public sector policies were to a great extent subject to the central management in the areas of investment ,finance and product mix.

Due to the fact that the government was the main beneficiary of petroleum revenues, therefore, with the decline in the oil prices after 1986, with continuing government expenditure with rates faster than its new income, the economy started to encounter a gamut of difficulties. In general, we can describe the Egyptian economy at the second half of the 1980s as having the following characteristics, large price distortion in foodstuffs and energy, administrative management of the foreign exchange rate, nominal interest rate less than the inflation arte, limiting the foreign investment to certain sectors, large budget deficit, high inflation rate, and substantial deficit in the Balance of Payments (BOP).

Economic Reform Structural and Adjustment Program (ERSAP):1990S¹²:

The Economic Reform Structural and Adjustment Program (ERSAP) initiated by the Egyptian government after agreements with both the International Monetary Fund (IMF) and the World Bank (WB) is, at least in my own opinion the right decision at the wrong time. When I say the wrong time, I mean the program should have started earlier than that time. At any rate, to start late is better than not starting at all.

ERSAP can be seen as a wake up note that intended to correct the mistakes of the past even if not intentionally committed. The deficiencies in the public sector performance, the macro imbalances in the form of budget deficit, high inflation and Balance of Payments (POB) deficit sent an alarming bill to the policy maker. Furthermore, the country was heavily relying on volatile sources to get its foreign revenues, particularly, Suez Canal, expatriates remittances and the oil prices all of which is subject to shocks that can hardly hit the economy at least in the short run. These facts in addition to the acerbating situation of debt that reached nearly \$50 billion but the interest rate made it imperative to the government to intervene to put the economy on the right track.

It is needless to say that the macro imbalances and indebtedness were normal results of state ownership, protection form foreign competition, commitment of the government to provide public services and subsidizing goods for high population growth.

The above stages of economic development in Egypt showed some positives aspects and also some negative ones. With the prevailing macro imbalances (budget deficit, high inflation, and balance of payments) and micro imbalances (price distortion)

and the constrained foreign trade it becomes imperative to find out an escape boat from this perplexed situation. The outlet was" the Economic Reform Structural and Adjustment Program (ERSAP).

The early stage of the 1990s witnessed a set of steps aimed at activating the Egyptian in the aftermath of a number of problems the economy encountered during the second half of the 1980s. In this respect, by the end of 1990 president Hosni Mubarak initiated a 1000-day plan towards liberalizing the Egyptian economy, in May, 1991 The Egyptian government reached a financial agreement with International Monetary Fund (IMF) and in November 1991 it reached another agreement with the World Bank (WB) in its plan for structural adjustment.

The Egyptian Economic Reform Structural and Adjustment Program (ERSAP) aimed at correcting the macro imbalances, price distortion and freeing the foreign trade. Furthermore, transforming the economy from a state controlled economy to a more market oriented economy working under the demand -supply forces, granting more role to the private sector and shrinking the subsidization of goods and services in order to remove the price distortion and finally privatizing the public sector specially after the shortcomings it encountered due to the poor performance both financially and economically.

The Egyptian reform program stressed five aspects of reform as follows ¹³:

1. **Restraining the fiscal expenditure**, with the aim of reducing expenditure and controlling inflation.
2. **Exchange rate controls**, in order to reduce the Balance of Payments deficit and produce efficient allocation of resources between the economic activities.
3. **Adjusting the interest rate**, with the aim of encouraging domestic saving and attracting the saving of the Egyptian workers abroad.

- 4. Reforming the price structure,** the price structure reform take place through abolishing subsidy and price control to avoid the waste and allocate resources efficiently.
- 5. Privatizing the public sector,** through liquidating the inefficient units and allowing the other to set their own prices and eliminate the discrimination between the public enterprises and the private ones.

The main feature of the Economic Reform Structure and Adjustment Program (ERSAP) is that we can distinguish to main policies, first, stabilization policy , that aimed to correct the imbalances in the public policies (budget deficit, inflation rate and the interest rate) , second, the structure change policy , this policy aimed to reform the foreign trade , public sector, privatization. The main purpose of these two policies is to bring the Egyptian economy in conformity with the international competition.

On the front of the foreign trade, there was a large reduction on tariff rates and addition abolishing the ban on importation and exportation of some goods that were applied during the protection policies applied before implementing the ERSAP. Furthermore, a number of Laws were issued to organize the domestic market such as the Consumer Protection Law NO 67 of 2006, the Law no 3 of 2005 on the Protection of Competition and the Prohibition of Monopolistic Competition.

On the front of qualifying the Egyptian economy to deal with international trade and abiding by the WTO rules the Law no 161 of 1998 was issued to protect the Egyptian economy from the unfair trade practices. Furthermore, amendments were introduced to the investments laws to lure foreign investments.

To sup this section, the ERSAP has achieved positive outcomes in the form of macroeconomic policies stabilization and liberalizing the economy to deal with the international economy.

Key features of the growth after implementing the ERSAP¹⁴:

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As a matter of fact implementing the ERSAP lead to positive consequences reflected in a tangible progress in macro imbalances as the growth rate of GDP averaged 4.2% through the period started from 1990/1991-2004/2005. The ERSAP managed to establish conditions for the sustained growth, the growth can be attributed to the increase in private investments and the public investments mainly in the infrastructure.

At 1998 the economy encountered a number of external shocks that negatively affected the growth rate. These externals include financial crisis in South East Asian countries, Luxor incidence and the decline in oil prices and the situation aggravated by the September 11 attacks then came the war on Iraq all these events of course lead to slowdown in the growth rate.

As a result of these events the economy encounter a shortage of the foreign currency, inactive monetary policy, high real interest rate, in January 2003 the Egyptian pound was floated with a depreciation of at least 30% of its value, the growth rate declined to 3% in 2003. I the fiscal year 2003/2004 there was a boom in the exports of goods and services, flourish of tourism, , the growth rate reached 4.7% and in 2004/2005 it reached 5% and 6% in 2005/06. The growth reached 7% in 2006/2007.

With the sudden increase in the food prices the inflation rate went up to exceed 20%, then came the world financial crises with expectation that the growth may go back less than 6%.The government intervened to reduce the prices of some goods by totally eliminating the customs tariffs imposed on them in order to reduce the burden on the low income classes.

Poverty in Egypt:

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There is no doubt that the poverty issue is a very troublesome issue for the policymaker in any country. Egypt -as a developing country- is not an exception of that rule. Since the 1952 revolution, the successive Egyptian governments gave the due concern to the social dimension with poverty on the top of its priorities. A great effort has been made, but alas, the poverty rate in Egypt still reasonably high.

In this section, the paper gives a short glimpse of the definition of poverty and its causes. The most important in this section is answering the question that : why all the policies adopted since the sixties did not lead to the eradication or at least reduce the portion of population suffering poverty to the minimum level?.

In a very simple language, poverty is the inability to meet the basic needs required for survival. In this respect, we can distinguish between three different types of poverty as follows:

Extreme poverty¹⁵, where the household is not able meets the very basic needs. They suffer severe hungry, lack shelter; lack safe drinking water, lack of sanitary, unable to afford education for some or all of their children. This type of poverty is most difficult one.

Moderate poverty, where the basic needs are barely met.

Relative poverty, where the household income is lower than a certain level of national income.

Egypt has the three types of poverty and adopts a number of policies to overcome poverty. In my own opinion, it is worth noting that in the twentieth one

century it is a very shortsighted vision to restrict poverty to these types only. The ceiling of aspiration of citizens must be raised to higher level to cover features such as political participation and participating in the decision making.

3.1 Characteristics of the poor:-

1. High rate of illiteracy.
2. Large families
3. Poor health care.
4. Poor infrastructure.
5. Poor education system.
6. Low-skilled and low income.

4. The policies adopted by the government to tackle poverty:

As a matter of fact the successive Egyptian governments adopted varied policies in order to reduce the burden on vulnerable and the low income classes of the society. In this respect the governments provided the marginalized classes with in-kind benefits and cash transfer. A number of bodies and policies were established and adopted as follows:

4.1 Productive families' Projects¹⁶:

In 1964, the productive families' projects were established with social-oriented in order to enable the poor households be engaged in home profitable industries to enhance their standard of living and encounter social hardships.

4.2 Establishing the Ministry of Social Affairs and Insurance:

The main purpose of this Ministry was to handle all social issues related to reduction of burden on the vulnerable and marginalized class of societies. It was and still responsible for providing social programs and pensions (Sadat pension and Mubarak pension, each of is a separate pension take the form of providing a monthly stipend for

the old citizens who has no other sources of income). In addition to this, the ministry supervises the Non-Governmental Organizations (NGOs).

Nasser Social Bank:

By virtue of the law no 66 for the year 1971 Nasser Social Bank was established in the purpose of spreading the social solidarity among the low income classes and assisting in creating jobs to reduce unemployment. Furthermore, the bank is responsible for handing distribution of Zakat funds among the poor. Furthermore, the productive families' projects were providing training and raw material and assisting in marketing the products.

Social Fund for Development (SFD):

In 1991, the Social Fund for Development (SFD) was established in the aftermath of starting the Economic Reform Structural and Adjustment Program (ERSAP) in order to reduce the implications of implementing such a program.

The main tasks of the SFD were as follows:

1. Reduce the implications of implementing the ERSAP in the form of unemployment.
2. Reduce the risk of social exclusion.
3. Encouraging self-employment by providing loans to start small enterprises.
4. Securing the non-financial services for the small and medium enterprises.

The Thousand Villages Project

Recently, the Egyptian government, in its continuing efforts to reduce the poverty, it specified a thousand villages that suffer the extreme poverty to tackle poverty in these villages to be followed by the villages that suffer less poverty.

In parallel with the above policies the Egyptian government is implementing the goals of Millennium Development Goals (MDGs) to reduce those suffering hungry and extreme poverty to the half.

In addition to the above policies and in spite of the fiscal austerity since the inception of ERSAP IN 1990, the social expenditure did not diminish , on the contrary , it increased although the public expenditure declined through the period 1990-2000 as shown in table (1) below:-

Table 1: social expenditure in Egypt 1990/91-1999/2000:

	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/2000
Total public expenditure/GDP	38.0	37.2	35.4	34.7	30.5	29.8	27.9	27.3	30.5	29.2
Social expenditure/GDP:-	6.9	6.9	6.3	5.9	6.1	6.1	6.3	6.7	4-7.1	7.5
-Education	3.1	2.8	2.9	3.2	3.6	3.5	3.7	4.1	4.5	4.6
-Health	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.9	1.1	1.3
-subsidy	3.0	3.4	2.6	2.1	1.9	1.9	1.8	1.7	1.6	1.6

Source: social expenditure and the poor in Egypt, Ahmed Galal, 2003

The table above shows that, in spite of the fiscal austerity due to the ERSAP program, the government is still committed to the social dimension. But we have to acknowledge that formulating policies is something and the effective, efficient and equitable implementation is something else. In this respect, we mention two examples as follows:

First, the leakage of subsidy from poor to the non-poor:-

Table 2: (percent value of assistance received by the non-poor)

Food subsidies	83
Electricity subsidy	76
Petroleum subsidy	87
Social safety	76

Source: Subarro1997, PCBS and World Bank (2004a)

Second, both rich and poor students are entitled for the free public education:-

In the absence of distinguishing the recipients of social expenditure on the basis of level of income leads to the inefficient allocation of limited resources. The eligible student who can select higher education is estimated to be 60% while 40% will not be able to access to higher education without the subsidy from the government (Tarek Selim, 2008) ¹⁷.

The above two examples, confirm that, the mere commitment of the government is not sufficient to guarantee that the targeted groups receive the intended benefits of social expenditure.

Now, it is high time to look for an avenue that leads us to overcome these shortcomings dominating the social expenditure policies. In these respects, we have three alternatives for reform as follows ¹⁸:

1. The engineering approach:

The core of this approach is that the outcome of social expenditure is determined by the quantity, quality and the mix of inputs. In cases where the outcomes are not satisfactory, then we increase the quantity, improve the quality or change the mix of inputs.

2. The industrial organization approach:

The core of this approach is that since in certain circumstances the interests of the principals (politicians) may be in conflict with interests of the agents(teachers, doctors, etc.), therefore this approach balances the interests of both and at the same times empower the beneficiaries to monitor the performance of both the principals and the agents.

3. The accountability approach:

The core focus of this approach is that it explains the poor delivery of social services by the weak relationship between parties. In other words, the weak relationship between the provider and client or between the politician and citizen. In order to strength the accountability, the approach motivates the provider and empowers the beneficiaries.

The Trend of poverty in Egypt:-

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In spite of the policies adopted by the government, the rate of poverty in Egypt still high in the form of incidence (the proportion of population who are able to meet the basic needs) or in the form of the depth (the proportion of population under the poverty line) as clarified by table 3 below:-

Table 3: the ratio of poverty 1990/1991-2004/2005

Indicator	1990/1991	1995/96	1999/00	2004/05
P0*	24.18	19.41	16.74	19.56
P1**	6.54	3.39	2.97	3.9

Source: Hana Khier El din, estimation based on HIECS

*Measure of incidence of poverty.

** Measure of depth of poverty.

The above table shows clearly that the situation of poverty in Egypt still high. Regardless of the measure used to estimate the poverty in Egypt the picture is not encouraging. This situation invites not only the government but all the interested parties

including the poor themselves , the Non-Governmental Organizations (NGOs), the private sector, the political parties to jointly not only to adopt new policies but also review the policies implemented before and why they did not lead to the targeted goals.

The Islamic vision for combating poverty¹⁹:-

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All over the world there is no society that all its individuals live in absolute affluence. Every society has widows, orphans, elders, those who working but their income is not sufficient to meet their basic needs, and finally there are individuals who are in the age of work and wishing to work but finds no jobs. These groups of society need help to overcome their hard live.

Islamic religion considers poverty a hard problem that must be uprooted drawing the attention that the poverty is danger on belief, behavior, human thought, family and society at large. A brief discussion of each of these is given below:-

1. Poverty is danger on Belief :-

Islamic religion strongly consider the poverty as the most dangerous threat to the belief, particularly the absolute poverty in a society where some its groups live in a flagrant wealth. This dilemma aggravated when the poor is striving to earn his livelihood while the wealthy is relaxing of work. This situation creates a case of suspicion to the poor in respect of fair distribution of the income. The kind of thought from the side of the poor resulted from the unfair distribution of income made one of the precedents to say that," if the poverty went to a country , the idolatry told it, please take me with you".

2. Poverty is danger on the morals and behavior:-

Poverty is danger on the morals and behavior of the individuals. The deprived poor sometimes enforced by his deprivation and desperation to behave in a way that is not accepted by the good moral and virtue. It is commonly said that the voice of stomach is louder than the voice conscience. A hungry man is an angry man, as narrated first in William Shakespeare's farce of "two gentlemen of Verona" in 1594.

3. Poverty is danger on the human thought:-

Poverty negative effect is not restricted to the spiritual or moral of the human being, but it includes also aspect of thought. The poor who does have enough to meet his own needs and his family necessities will not be able to think deeply. It is narrated that the Great Imam Abu Hianfa said once, “Do not consult who does not have a floor at his home” as he is dispirited and busy, and his judgment will not be fair.

4. Poverty is danger on the family:-

Poverty is danger on the entire family from different perspectives, on its composition, its continuity and its coherence. The poverty is main obstacle that prevents the youth from marriage due to the lack of the resources. Furthermore, poverty breaks the ties of kinship inside the family.

Poverty may enforce some fathers to kill their offspring as a result of want. Of course those kind fathers are not normal and the Quran prohibits such atrocities. In this respect, Allah says “Kill not your children on a plea of want, we provide sustenance for you and for them” (Al-Anaam: 151).

5. Poverty is danger on the stability of the entire society:-

Poverty constitutes a great threat to the security of the society as a whole. In this respect, the poor can endure poverty if it resulted from lack of resources and overpopulation in society, but he will not endure it if resulted from unfair distribution of the income inside the society. In societies , where there is a wide gap between the rich and the poor, a case of disorder prevail in the society and ties of brotherhood between people are broken.

Poverty is danger on the national sovereignty, freedom, and independence of nations. The deprived poor will not have enthusiasm to defend a country discriminated against him in favor of the rich. The absence of fairness in distributing income between citizens is negatively affecting the loyalty towards the nations.

To sum up the danger of poverty, it constitutes the prime threat to any society. It affects health, security, loyalty, stability, self esteem. The development process is basically concerned with fulfilling these goals of the human being and accordingly the nations.

Strategies of Islam in combating poverty:-

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Islamic Religion is keen that every person in the Islamic country, even if not a Muslim, must attain what enables him to live a reasonable life. Every individual should have, at least, the basic needs of food, shelter, clothes, etc.. In addition, every individual should have what enables him to perform the orders of Allah, to carry out the responsibilities of his own life and to have what protects him from the poverty and deprivation. In this section, the strategies of Islam in combating poverty and securing a human life for each person in the Islamic society are discussed. These strategies are as follows

1. Work :-

In Islam, work is the first weapon to combat poverty, the first cause to gain wealth and the first element to implant the earth. Every one in the Islamic society is required to work. Every Muslim is ordered by Allah to walk in the spacious earth and eat from the sustenance Allah furnishes to his creature.

Islam leaves the ways of work wide open before the Muslim to select what meets his qualifications and expertise and not impose a certain work on the individuals unless there is an interest of society.

The teachings of Islam in the Quran and the Hadeeths of Messenger Mohamed (peace and blessings of Allah be upon him) urge Muslims to work in order to benefit himself and his society. We mention here some examples:

In the Quran Allah says (interpretation of the meaning) “It is He Who has made the earth manageable for you, so traverse ye through its tracts and enjoy of the Sustenance which He furnishes: but unto Him is the Resurrection” (Al-Mulk:15).

The messenger of Allah (peace and blessings of Allah be upon him) said:

“No one ever eats any better food than that earned by the work of his hand”

(Narrated by Al Bukhaari).

The messenger of Allah (peace and blessings of Allah be upon him) gave a unique example of how the ruler should be in directing his people, the example is , it was narrated by Anas Ibn Mallik (may Allah be pleased with him) that a man from Al Ansaar came to the prophet (peace and blessings be upon him) asking for help, then the prophet (peace and blessings be upon him) said to the man, “ is there is anything at your home?.” The man said” yes, a blanket, part of which we use spread underneath and a part we use to cover ourselves, and a cup we use to drink water.” The Prophet (peace and blessings be upon him) said to the man go and bring them to me.” After the man gave the blanket and the cup to the Prophet (peace and blessings be upon him), the prophet said, who can buy these?. A man said, “ I will take them for a dirham .”

The Prophet said, who will pay more than a dirham ?.”then another man said , I will take them for two dirhams, the Prophet gave them to him and gave the two dirhams to the Ansaari , and say, “buy food with one dirham and give it to your family , and buy adze with the other and give it me. The messenger of Allah (peace and blessings be upon him) used the adze to stick a strike a stick in his hand and said to the ansaari,” go and cut wood and sell itI do not like to see you for fifteen days.” So the man went and chopped wood and sold it, then he came and had earned ten dirhams. The ansaari bought garments with some and food with the some other.

This story tells us that the Prophet (peace and blessings be upon him) did not give the ansari money but taught him how to earn his own sustenance as long as he is able to work. Working is better than asking people who may or may not give the pegger.

2. Rich people of the family take care of their relative poor:-

The rich of the families are obliged to take care of the relatives’ poor, as a right and by virtue of ties of kinship. If the rich does not help his poor relatives’ he will be punished by hungry and thirsty, he is not given a mouthful of food or a sip of water as a result of breaking his kinship ties.

3. Al Zakah:-

Al Zakah is one of the five pillars of Islamic Religion. Al Zakah is must for every Muslim provided that two conditions are met, first, the *nisab* (minimum wealth required to pay Al Zakah) and second, the *hwal* (passage of one year on earning the income or wealth)

The main purpose of Zakah is helping the poor. In the Muslim society there are widows, orphans, elders and those are not able to work, therefore, the Zakah is imposed

as a percentage of the income of the rich and then directed to the poor and needy groups of the society. Al Zakah is not a choice but a fixed obligation from Allah.

Al Zakah must be paid whether the society needs it or not. In Islamic history , there were some periods in which there were no poor, this was in the period of Caliph Umar Ibn Abdel Aziz.

4. Voluntary charity :-

This kind of charitable giving is without obligation. Every Muslim can give the poor without asking and he is looking for reward from Allah.

The role of the informal economy in combating poverty:-

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There is no doubt that the informal sector plays a great role in combating poverty. The importance of the informal sector as a tool to combat poverty becomes crystal clear if we examine the negative impact of privatizing the public sector. It was realized that as a result of implementing ERSAP program that a large number of employees lose their jobs in public sector and find no other option but to work informally. In addition to the privatization the government is seeking to downsize the labor force in the governmental bodies. as a result of these policies, the only options for the those looking for jobs is the private sector and informal sector.

Of course the private sector will not be able to absorb the new entrants to the labor market annually, then the informal sector emerges as the only option available before two types of those seeking for jobs. First, those lost their jobs at the public sector as a result of privatization, the second group are the new entrants to the labor market. This introduction makes it imperative to give the informal sector the due concern. In this respect, we have to distinguish between two types of those working in the informal sector, first, self -employed and those who has enough money to start a micro and small business, second wage employed, and those do not have money and work in return for wage.

But at any rate the two groups, self employed and the wage employed are poor. The household members in the informal sector are poor either they are self employed or wage employed (Orinaldo 2001),in spite of the fact that the self employed can pursue an entrepreneur career. The wage-employed group is is concern in this paper since they are mostly poor not only in income but also in education, training, health care, social

security. in order to combat poverty for the wage - employed group, the government should formalize the informal sector. First of all we have to confirm that formalization is not an end per se but is a way to secure the benefits needed by the wage -employed group.

Through formalization (working under the governmental regulation) the government will have statistics that enable it to accurately determine the size of those working in the informal sector and accordingly provide the necessary benefits. in this regard, we see that a coordination between the government, the self-employed, the private sector, the Non-governmental organizations (NGOs) and the ,most important the positive response from wage -employed themselves , all those stakeholders are invited to jointly formulate the right policies for designing the wage policy, tax policy , insurance policy, pension policy and health insurance for the wage-employed groups.

From now on, the Egyptian government should not look the informal sector as a job provider and enough .informal sectors should be looked for as one of the key factors that can engine the development process. The informal sector in addition to providing jobs it also uses the local materials in producing goods and providing services. The workers in the informal sector are suffering risk on a daily basis, they are subject to injury and illness at the time that they do have any kind of protection or safety net, and their families live on a low or cut off income (ILO 2003)²⁰.

It is needless to say that poverty forces people to work informally and working informal sector indicates that there is poverty in society. in an attempt to denounce the idea that the informal sector traps its workers in poverty, Anderson(1998) tried to answer the question" what will be the situation of poverty in case of there is no informal sector. in 1996, Anderson examined the household in Ulaanbaatar / Mongolia, and concluded that under informal sector nearly 38 percent were under the poverty line

income, while in the absence of informal sector, about 53 percent were under poverty line of income, this conclusion of course reveals that the informal sector has a say in reduction of poverty.

The fact we need to confirm is that, informal sector has a crucial role in creating jobs for both those lost jobs in the public sector and the new entrants to the labor market. We realize that most of those working in informal sector are poor in everything (income, education, safety net, social security, lack of protection due to the lack of regulations organizing the work conditions, etc.). The mature dealing with the informal sector presents a golden opportunity to the poor and the development process alike. In this regard, the starting point is formalizing the informal sector, as we said above, formalization is not needed per se, but for the potential benefits it may provide for both self-employed and wage employed.

We see that all the stakeholders should participate as follows:

First, the government should do :-

1. Provide tax incentive to the micro and small enterprises, the government (in the past) give tax exception for ten years to the investments in new cities in spite of the fact that those investors can carry the burden of tax. It is better to give tax exception for micro and small enterprise for at least five years.
2. Pay 75% of social insurance and the self employed pay the remaining 25 % for five years and after that the self employed pay 50 % and wage employed pay 50%.
3. Providing the infrastructure to the micro and small enterprises.

Second: the private sector should do:-

1. Commitment to buy a percentage of the products of the informal sector at fair prices.
2. Participate with the Egyptian Industry federation in providing training for those

working in the informal sector.

Third: the self employed should do:

1. Register the wage employed worker and provide their contracts to the ministry of manpower to follow up their rights.
2. Submit their records to the tax authority on a regular basis.
3. Allow their workers to attend the training and workshops made by the private sector and industry federation.

Fourth: the wage -employed should do:-

1. Abide by the regulation of work as stipulated in contracts.
2. Attend training and workshops to raise their skills.
3. Provide nay complaints to the concerned bodies (labor offices spread in the governments).

Fifth: the Non -governmental organizations should do:

NGOs should follow up the obligations of all concerned parties referred to above and report any inconveniences to the government.

To sum up this section, the informal sector is a key player, provided that the other right policies are followed. The informal sector is a job provider, income generator for the poor workers, revenue source for the public budget in the form of the taxes paid. furthermore it is an engine for development in the long run , in particular if we take into account the fact that the net value added to the economy is very fruitful as it will reinvested inside the country, in this respect , the informal sector may be work as a substitute to the foreign investments in the long run , specially a large part of the revenues of the foreign investments transferred abroad.

Policy Recommendation:-

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As a matter of fact, designing the policies and formulating the strategies should be based on solid ground, in other words, the policy maker must take into account the characteristics of the poor in order to diagnose the right medicine needed for this social disease, the poverty. The following policies and strategies are recommended .

1. Eradication of illiteracy:

The first step that should be taken is that all the stakeholders (government – private sector- NGOs- political parties- the poor themselves) are to eradicate the illiteracy. The existence of illiteracy constitutes a hurdle to empower the poor and raise the human capital needed to make the poor productive and able to generate their own income.

2. Birth control:

The main feature of the poor people is that they have a large number of children under the pretext that they can assist them in farming their land if they have land or assisting their families in meeting the burden of life.

First , Egypt needs to change this culture and convince low income families that with large number of children neither the government nor the family will be able to secure the reasonable level of food, health, education. In this regard, Egypt should follow the footsteps of china (China set out a harsh measure on families that have more than one children and the government of China will provide the social services only for the first children), for Egypt and due to cultural and religious considerations every

family may have two children and any extra children the government will not held responsible in providing the social services.

3. Raising the standards of the health care:-

This strategy may be restricted mainly to the government with its capacity the sole provider of services to the poor people. Raising the health care standards will make the poor more healthy, more productive and capable of earning their own income. The literature proves that there a strong positive relationship between being healthy and productive.

4. Investment in infrastructure

In spite of the fact that the Egyptian government through implementing its Economic Reform and Structure Adjustment Program (ERSAP) invested heavily in infrastructure but it seems that there still a large number of villages that still in a dire need of infrastructure the issue that invited the government lately to determine a thousand villages as extremely poor and will be given the due attention in the coming days.

Through infrastructure (roads, schools, hospitals, sanitary sewage, clean water, etc.) the poor will be empowered and encouraged to send their children to school and with time a new social class will emerge and participate in forming the future of their communities.

5. Focusing on the quality of education:-

Since the paper speaks about the development and poverty in Egypt, therefore, without the right education there will be no development and accordingly no eradication of poverty. The starting point for both development and poverty eradication is through

high quality education. The Egyptian Competitiveness Report of 2008 mentioned a very shocking fact, which is, in a survey of 133 countries, Egypt was ranked 131 in respect primary educations. The education system in Egypt needs a complete an overhaul in order fit for the requirements of the twentieth one century.

The government is the main provider of the primary education service for the poor. The mere enrollment in the school is not the issue. The teacher-student ratio is most important thing. As discussed earlier, the government should subsidy the poor 40% not the whole students. Furthermore, linking the education with labor market is a right policy. One of the fascinating lessons that can be learned from South Korea is the priority given to the education at the very early stages of development.

6. Empowering the poor through raising their skills.

The facts on the ground proves that a large portion of the poor working in agriculture and informal sector. As we know, workers in agriculture and informal sector are devoid of any skills; therefore they need a joint cooperation from the government, private sector and NGOs to raise the skills of those workers.

On the informal economy side, since most enterprises are working a way from the government umbrella, therefore, the workers in these enterprises are not subject to the Business Development services (BDS) normally provided to the government workers.

Conclusion

Since the early sixties the successive Egyptian governments exerted reasonable efforts in the way to economic development and in parallel reduce the burden on the vulnerable and low income classes. Through the different stages of development we noted that the state was strongly exist with varied degree in each stage. While in the 1960S the populist economic policy necessitated the full control of the state over the economic activities. In the 1970s and the 1980s the role of the state declined in favor of the emerged private sector through the open door policy. Since the early 1990s, implementation of Economic Reform Structure and Adjustment Program (ERSAP) the role of the state greatly declined and the government mostly played the role of the facilitator more than the key investor.

The development process in Egypt, as any development process is primarily targeting the vulnerable and low income classes at the end of the day. Since 1960s until now the successive governments adopted a number of policies in order to reduce the burden on the low income classes of society and reduce the poverty but the facts on the ground proved that the formulation of policies is something and the implementation and its implications are something else.

The shortcoming that featured the policies adopted by the successive Egyptian governments is the flagrant absence of targeting the poor and the needy classes. The paper has shown that a large portion of subsidy went to the non-poor and this is the main reason that most of the low income classes did not benefit from fruits of the economic growth.

Another shortcoming, at least in my own perspective, Egypt invested a lot in the infrastructure giving little concern to the investment in human capital in order to secure indigenous skills required to push the development ahead. It is high time for Egypt to give the due concern to the human capital that was the primary engine of development in South East Asians, particularly in South Korea²¹.

It is needless to say that there a strong relationship between development and poverty reduction. In this respect, development, through the sustained economic growth accompanied by equal distribution of income will imperatively lead to poverty reduction. It goes without saying that, in order to have sustained economic growth, Egypt needs to create an environment that more conducive to doing business, not only for the foreign investment but most importantly the domestic business, in particular the informal sector. Egypt currently has a fairly stable macroeconomic policy thanks to the ERSAP implications, but it needs a more transparent management of public resources and most importantly it needs a strong enforcement of the rule of law.

The most important action needed by the government is the subsidy reform, I mean targeting those in a dire need of help, the poor. As it was clarified through the paper a huge portion of the subsidy goes to the non-poor and this situation devoid the poor from feeling any impact of economic growth. A new policy for subsidy is strongly needed especially after the sudden increase in food prices this year that hardly hit the low incomes classes after the inflation rate approached nearly 20 percent in some months.

All in all, the Economic Reform and Structural Adjustment Program (ERSAP) had positive economic performance in the form of tax reform and the stability of exchange rate since beginning of 2004, the liberalization of foreign trade and the

implementation of the privatization program. What is still need more focus is the modernization of Egyptian industry in order to support an export-oriented development policy to take benefit of a large number of regional agreements singed with a large number of countries.

Finally, the aspiration of the policy maker in Egypt must surpass the classical understanding of poverty as the inability to meet basic needs to a loftier goal of securing the quality of life. We mean by the quality of life higher income, better education, better health service, high culture, participation in decision making and finally, self esteem.

What must be confirm is that , when we aspire a society without poor , this does not mean we look for a society of rich but need citizens who are humanly lived , productive , loyal and at the very end a stable society²².

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